

Statement of the Honorable Carolyn Cheeks Kilpatrick
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District of Michigan

Before the

U.S.- China Economic and Security Review Commission

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“The Extent of the Government’s Control of China’s Economy,
And Its Implications for the United States”

Giving thanks to God, who is the power, force and director of my life, I want to thank the Members of the U.S. – China Economic and Security Review Commission for their continued hard work, objective analysis and hard questions for both China and the United States. As our world gets smaller every day, and as China emerges as one of the largest trading partners of the United States, I, along with the vast majority of the Members of Congress, seek a balanced and fair business environment on both sides of the Pacific.

I also want to commend the Commission for taking the initiative to come to my home state of Michigan last summer. Chairman of the House Energy and Commerce Committee John Dingell, Ways and Means Trade Subcommittee Chairman Sander Levin, and Senator Debbie Stabenow all added to the importance of the impact of trade on our great State and greater Nation.

The universe of consideration for today’s hearing is significant. China has more people in its boundaries than any other country on the face of the earth. China’s commitment to economic reform, human rights, the modernization of its manufacturing base, and democracy is largely determined by its sheer size and the fact that China has the specter of decades of state or governmental control. While China’s growth and progress are to be commended, there are three areas regarding China’s past and present trade practices that raise concerns not only to me, but to most Members of Congress, my constituents, and Americans in general. These areas of concern are:

- China’s adherence to the obligations of the World Trade Organization, and how it affects the automotive industry;
- China’s commitment to the protection of intellectual property rights and its production of counterfeit goods; and
- China’s human rights policies.

Allow me to touch briefly on each of these areas.

China and the U.S. Automotive Industry

One of the conclusions of the Commission's hearings in Dearborn, Michigan is that in the next five to ten years, China will witness an entire new phase of economic development regarding the automotive industry. Once incapable of producing automobiles, China will have a fully mature automobile industry capable of producing a large volume of vehicles with the quality and styling sufficient to compete in all international markets. Coupled with the undervaluation of their currency, tax breaks, and subsidies, China is poised to export an unfairly priced automobile. To be more precise, it is believed that China's aim will be to seize significant shares of markets abroad rather than simply to produce vehicles for domestic trade. As the Commissioners reported, and as a Michigander concerned about not only jobs in Michigan but in the United States, this strategy has been China's practice of export driven growth; the primary target being the United States.

One in every eight jobs in the United States is somehow linked to the automotive industry. After the purchase of a home, the purchase of an automobile is the largest purchase for the overwhelming majority of America's consumers. Michigan, specifically my home city of Detroit, has been the home of the automotive industry for decades. While this role has been shifting, the decline of the domestic automotive industry, when it comes to China, has not been an entirely level playing field.

The losses of the automotive industry have been massive. In 2005, General Motors, which is headquartered in my Congressional District, lost more than \$5.6 billion on its North America operations alone, with Ford losing \$5.5 billion during the same period of time. GM's share of the market, which used to be 36% in 1990, had shrunk to 26% in 2005. Ford's 1990 share of the market, which was 24%, was 17% two years ago. Production for Ford and GM has dropped 26% since 1999.

In the wake of these losses, Michigan and our country has lost a significant number of jobs. Both GM and Ford announced a series of plant closings in North America, with an estimated loss of 60,000 jobs through layoffs and early retirement buy-outs. According to the Bureau of Labor Statistics, in 2005 the automotive industry lost a total of 215,000 jobs, and stated that "industry employment is headed downward and is not likely to recover for several years." This situation does not get any better for those related industries supplying automobile parts, providing insurance for automobiles, or selling vehicles wholesale or retail.

While domestic manufacturers are not entirely blameless for these losses, a significant factor has been the way in which China has done business with the Big Three. One of the Commission's conclusions at the Dearborn hearing is that "the many subsidies provided by the Chinese government to the auto industry will quickly distort the nature of the market. This will be true especially in the United States, where markets are most open. The Chinese challenge to the U.S. auto industry is a significant assault on American manufacturing, and that assault is increasing in magnitude and in pace."

American companies can compete, be innovating, and be as creative, if not more than, any country on the face of this earth. American workers will work as smart, as hard, and as efficient as any worker in the world. The automotive industry has provided good, fair paying jobs and benefits for generations of all Americans. Indeed, the auto industry was one of the first industries to provide fair wages and benefits to African Americans during an era of rampant segregation and discrimination. But this competition has to be on a level playing field, as China promised the United States when China became a member of the World Trade Organization. The Commission's findings clearly indicate that this is not the case.

In light of these facts, I strongly urge the Commission, as it does its work to equalize trade between our two countries, to aggressively ask and urge our Chinese partners and the leadership of China to address its findings from the hearing in Michigan, which include:

- What steps will China make to stop its WTO-illegal trade practices, including its governmental industrial subsidies, undervaluing of its currency, violations of intellectual property agreements, among others, to eliminate the eroding of the U.S. manufacturing base? This significant harm to our diminishing manufacturing base is jeopardizing only on the U.S. automotive industry, but of other industries as well, including the U.S. defense industry;
- What steps China will immediately take to stop China's counterfeit automobile parts to be internationally misrepresented as genuine parts, in direct violation of both China's trademark laws and China's WTO obligations; and
- What steps will China immediately take to end the requirement from domestic manufacturers of a 40 percent content requirement in American made vehicles or face higher tariffs on American auto parts? As the Commission illustrates in its conclusion, this policy increases pressure on Chinese manufacturers to use Chinese versus American made parts. It also violates promises China made, and legal obligations it assumed, when it joined the WTO.

China and Intellectual Property Rights

Another concern is China's compliance to Intellectual Property Rights and its Production of Counterfeit Goods. Violations of intellectual property are harming U.S. consumers and American manufacturers. Since the year 2000, our motor vehicle parts industry has seen a decrease of 17% or a loss of 173,800 jobs. China's discriminatory tariff practice forces Chinese base auto assembly companies to use parts made in China rather than parts manufactured in the United States. This is a direct violation of promises China made as part of its accession to the United Nations. Indeed, there is evidence that workers in other countries effectively are replacing U.S. auto parts workers.

Intellectual property industries contribute to more than 50% of all U.S. exports and represent 40% of U.S. economic growth. This represents a tremendous investment of time, money and tenacity on the part of our investors and workers. The impact of Chinese

violations of Intellectual Property Rights is difficult to assess. The U.S. Chamber of Commerce estimates that the global intellectual property industry loses \$650 billion annually in sales due to counterfeit goods. Some analysts estimate that China is responsible for as much as 70%. U.S. copyrights losses are estimated at between \$2.5 billion and \$3.8 billion. Our pharmaceutical industry loses 10-15% of annual revenues due to property rights violations.

These inconsistencies are found in the subsidizing of various industries or other mechanisms to promote favored industries. These issues pose serious disadvantages to our manufacturers and work force; taken together, they present a very difficult mountain to climb to an American industry that is already immersed in obstacles. These declines not only represent the loss of jobs, but also the deterioration of our communities and cities.

China and Human Rights Policies

As a Member of the House Appropriations Committee, I have served a majority of my time on that Committee on its Foreign Operations Subcommittee. I have been to China, and I fully understand and appreciate how China is seeking an increasingly active role in the world, especially in Africa, Latin America, and Southeast Asia. China's foreign relations often are tied to its desire to open new markets to Chinese imports and also to access resources, such as oil, minerals, and timber, to fuel China's continued economic growth. There are instances in which China appears to present itself as an alternative to partnership with the United States and is concerned with expanding its ability to influence global organizations and norms. Although China has heard the U.S. call for it to act as a "responsible stakeholder" in its global affairs, its continued investment in and support of the regimes in Sudan, Zimbabwe, Iran, and Burma suggests that China has not adopted this policy.

The continent of Africa now supplies approximately a third of China's oil imports. China has invested in oil exploration and production in countries across the continent, including Algeria, Angola, Nigeria, Equatorial Guinea, Ghana, and Sudan. In 2006, Chad switched its diplomatic recognition from Taiwan to the People's Republic of China; the two countries currently are engaged in oil exploration and production joint projects.

As a human rights activist and fighter, one of my personal concerns, and that of the Congressional Black Caucus of which I am the Chairperson, is ending the genocide that is in the Darfur province of Sudan. In the wake of the world's awakening to this horror, I am sure that the Commissioners are aware of the many individuals who protest China's involvement in Sudan. In particular, there are organizations that have indicated that they will use the 2008 Olympics in Beijing as an opportunity to speak out against China's continuing support of the Khartoum regime, which they argue is responsible for genocide in Darfur. I would strongly urge the Commission to explore and ask if China recognizes and appreciates the intensity of the opinion of the Congressional Black Caucus and international opinion about what is occurring there, and understand the widespread concern about China's role in enabling the conflict to persist? If that protest occurs

during the Olympics in China, will China protect the protesters' right to free speech? Will China stop trade with Sudan and use its significant influence in this area to prevent further rape, death, and murder of innocent women, children, senior citizens and human beings?

I have hope that the relationship between China and the United States will benefit both countries. Fair trade between China and the United States means just that – trade that mutually benefits both parties. The story of trade with China is not all bad; China has forgiven billions of its currency in debt to some African nations. While never committing combat troops to the missions of the United Nations, China has more than 1,000 soldiers and police personnel serving in the United Nations' peacekeeping missions in Kosovo, Haiti, Lebanon, the Democratic Republic of Congo, Liberia, and the southern region of Sudan.

It is my obligation as a Member of Congress to protect the best interests of the people of the 13th Congressional District of Michigan and of America. As we continue to change course, confront crises, and continue the legacy of democracy and justice, we can have trade that benefits both partners, enriches both economically and spiritually, and do so without doing harm to one another or to others.

I look forward to the Commission's findings on this and future hearings, and look forward to working with our partners in China to level the playing field for all manufacturers and workers; ending the genocide in the Sudan; and fully respecting the intellectual property rights of all individuals and companies.